

# Illinois

## *Transforms Procurement* and Saves



**State's redesigned procurement and savings strategies support government policies**

By Katherine K. Frisch, Editor

As part of an effort to improve the effectiveness of state government, the State of Illinois has streamlined operations and services. Cost reductions, increased transparency of services and results, and improved accountability have led the effort to transform the state into a coordinated enterprise-wide organization. In addition, standardized processes and procedures have produced better service at lower prices, created the foundation for sustained productivity, and furthered government policies.

### **State Takes Steps Towards Savings**

In 2003, Illinois Governor Rod R. Blagojevich instructed the Department of Central Management Services (CMS) to analyze the state's key functions and implement changes that would lead to greater efficiency and accountability. The McKinsey & Company consultancy was brought in to introduce strategic sourcing to the state's decentralized purchasing department. With the aid of McKinsey, CMS began to pursue a shared-services model that would reduce duplicated effort and, ultimately, coordinate statewide delivery of similar functions and services. In response to the governor's mandate, the Procurement Initiative was launched, and the resulting redesigned procurement organization became known as the Bureau of Strategic Sourcing and Procurement (BOSSAP).



*Mike Smith is Deputy Director for Illinois' Bureau of Strategic Sourcing and Procurement (BOSSAP), a division of Central Management Services (CMS).*

The effort included programs for procurement, employee benefits, information technology (IT) and telecommunications, facilities management, internal audit, legal services, media services, and fleet management.

By August 2004, CMS began implementing improved procurement procedures for all agencies, boards, and commissions under the jurisdiction of the governor. In addition, new positions and responsibilities were established (*see below*).

To introduce BOSSAP and ensuing improvements, CMS held detailed presentations to discuss the new organization and answer questions.

Comprehensive training sessions on new processes and procedural changes were made available to all. Existing staff was required to attend role-specific training sessions, such as negotiation strategy and reading financial statements. New personnel hired within BOSSAP were, and are, required to attend sessions on the state's "center-led" procurement processes.

To further support the reorganization efforts, the Call Center was created to address basic questions or direct agency users and vendors to the person best suited to respond.

"The Call Center is a key element of the BOSSAP

strategy of being a shared procurement resource," says Mike Smith, Deputy Director, CMS. "The center ensures that anyone who needs procurement guidance can get access as quickly and efficiently as possible."

### **Illinois Improves Procurement Processes and Procedures**

Prior to reorganization, silo-like agencies with their own back-office functions and systems were the norm.

After months of work, the "silos" were converted into an enterprise framework that greatly reduced duplication of efforts. The philosophy of center-leading procurement requires procurement staff within BOSSAP and the purchasing agencies to play different roles based on the stage of the procurement life cycle. The state developed a five-step approach to all procurements that clarifies the roles within an agency and BOSSAP. The steps include:

- 1) Define the needs and specifications
- 2) Develop a sourcing strategy
- 3) Select vendors
- 4) Administer contracts and place orders
- 5) Track performances.

#### **1) Define the Needs and Specifications**

The first step in the process begins with the development of a Procurement Business Case (PBC).

"The PBC provides a template for an agency user to explain the need that this procurement will satisfy," says Smith. "The document also begins the discussion surrounding vendor economics and benchmarking against best practices, including potential levers, optimizing the supplier base, and evaluation criteria."

## **New Leadership Roles Help Define Statewide Procurement Processes and Procedures**

Illinois' Bureau of Strategic Sourcing and Procurement (BOSSAP) improved the capabilities of existing staff within the Department of Central Management Services (CMS) using a comprehensive, targeted training program focused on the entire procurement process. BOSSAP assembled the talent and procurement knowledge to support the needs of agencies, allowing agencies to focus on delivering their core missions instead of managing non-core support functions. The four leadership roles include:

**Chief Operating Officer (COO):** Manages BOSSAP on a day-to-day basis. COO provides operational support to all sourcing activities, coordinates efforts with sourcing managers, and reports on procurement

activities and performance.

**Portfolio Manager (PM):** CMS analyzed the state's \$15 billion procurable spend and divided the majority into five portfolios. The five PMs are responsible for overseeing the spend on a portfolio of goods and services. PMs establish guidelines for sourcing strategies to minimize total cost of ownership and lead large negotiations.

**Strategic Sourcing Manager (SSM):** SSMs report to PMs and are responsible for overseeing the procurement of categories of goods and services within a portfolio.

**Chief Knowledge Officer (CKO):** This position is responsible for supporting buyers, SSMs, SPOs, and PMs with supply market analysis and development of vendor economics. The

CKO also organizes internal and external procurement best practices in the state's Procurement Knowledge Management System. (For more information on the system, see "For Illinois Agency, Knowledge is Power—and Promise" in the August 2005 issue of *Government Procurement*.) In addition to monitoring vendor performance, the CKO's staff runs a call center, manages contract compliance, and maintains and updates the system.

"We built our own knowledge management system, migrated it to the Web, and this year we extended it to all the purchasing officers in our statewide network," said Paul Campbell, Director, CMS. "Our new focus is the logical next step: spend management, to help us better track—and thus better control—the state's spending."

The PBC allows early identification of opportunities to consolidate purchases, establish master contracts, or incorporate small and diverse business goals. All PBCs must be reviewed and approved prior to proceeding to step two.

## 2) Develop Sourcing Strategies

Once a PBC receives approval, the total cost of ownership (TCO) is determined for the particular good or service. A critical step during this phase is selection of the evaluation team.

"Complex procurements require specific expertise to evaluate proposals along multiple dimensions," says Smith.

Members of the evaluation team select evaluation criteria and complete an ongoing vendor performance scorecard, create a detailed evaluation matrix, establish a timetable for review of proposals, and present recommendations.

This comprehensive approach to identifying potential suppliers and understanding their market prior to requesting bids or proposals has increased the state's quality of solicitations.

## 3) Vendor Selection

"If the sourcing strategy has been appropriately developed, the evaluation of bids or proposals against established criteria will result in better vendor selection decisions," says Smith.

At this stage, it is critical that the evaluation team have a thorough understanding of the needs of the users and supplier economics of the prospective vendors. A more informed team has greater success during contract negotiations.

## 4) Contract Administration

Step four requires coordination with respective legal departments to manage the approval process according to the state Procurement Code, execute the contract, and

communicate contract information to all users.

## 5) Performance Tracking

At this point, BOSSAP proactively manages supplier commitments. BOSSAP develops objective vendor performance criteria for appropriate CMS-led contracts and collects information from users and vendors. The vendor performance scorecards are developed during the sourcing strategy phase and included in final contracts.

## State Purchasing Officers (SPO) Take the Lead in All Procurements

BOSSAP continues to work closely with the State Purchasing Officer (SPO) of each agency to ensure consistent application of procurement policies and best practices, as well as further the goal of balancing policy and savings.

"In the final analysis, the SPO remains heavily involved in the development of bid/proposal documents in terms of ensuring that specifications are sufficient, participating in the development of evaluation criteria, and working on evaluation

teams," says Smith.

While the five-step approach forms the foundation of the procurement process, BOSSAP's role varies based on the item being procured. The state's center-led approach follows the premise that the state procures three categories of items:

■ **Commodities** (basic items used by one or more agencies), for which BOSSAP provides sourcing expertise and guidance

■ **Strategic** (more complex items used by multiple agencies)

■ **Specialty** (complex items used by a single agency).

For strategic and commodity items, BOSSAP may take a more active role in the development of the solicitation and vendor selection,

especially on larger or more complex procurements.

An agency's SPO works with the portfolio manager to determine which procurements require greater BOSSAP involvement.

"To ensure streamlined, consistent, and standardized procurement practices, procurements require strong collaboration between BOSSAP and the agency," says Paul Campbell, Director, CMS.

## Streamlined Procurement Processes Save Time

"We streamlined the Request for Proposal (RFP) process and eliminated redundant approvals, which sped up the process significantly while improving transparency and accountability," says Campbell. "The improved Invitation For Bid (IFB) process also eliminates redundant approvals and reduces processing time."

The revised RFP process reduces processing time by up to 40 days.

New solicitation and contract forms were provided by the CMS legal department, decreasing legal review time while better protecting the state.

## State Balances Government Policies and Savings

"One of the greatest challenges in any strategic sourcing effort is to develop and implement savings strategies within the parameter of government policies," says Campbell. "Recognizing this delicate balance, we've created innovative ways to incorporate policy concerns into our procurement approach."

For example, for solicitations that lend themselves to subcontracting opportunities, the state requests suppliers to include a diverse vendor utilization plan as part of their offers.

"We establish the percentage of participation expected up front and then work with the selected vendor to help meet or exceed this goal as part of the final contract," says Campbell.

A lever often used in strategic sourcing to save money is the



*Paul Campbell is Director for Illinois Central Management Services (CMS).*



bundling of contracts to take advantage of economies of scale. This approach sometimes impacts administrative initiatives that are designed to help small and diverse business groups.

"To ensure a balance, we are not only conducting an impact analysis before pursuing a bundling opportunity, we are also looking at opportunities to 'unbundle' a solicitation if greater overall value to the state can be achieved," says Campbell.

Knowing that small business is crucial to the continued economic development of governmental subdivisions, the state sets aside more procurements than ever for qualified small businesses.

According to Campbell, "To counter the theory that small business increases costs, we have focused considerable effort on marketing the program to small business vendors in order to foster greater competition to help keep costs low."

More Illinois small businesses received state contracts in 2005, thanks to the expansion of the state's Small Business Set Aside Program. A record \$16 million in set-aside contracts were awarded to Illinois small businesses last year, a 65 percent increase over the 2004 total.

"For too long, small businesses lost out on the opportunity to provide services and goods to the state because their size and lack of resources in comparison to bigger companies left them unable to compete," says Governor Blagojevich. "We've worked to turn that around, and now, more entrepreneurs in Illinois than ever before are not only competing for state business, but winning state contracts."

### State Validates Savings

As the efficiency initiatives progressed, projected savings estimates required further analysis.

Because CMS encountered a number of challenges to savings



**Steve Dahl is Firm Director for Deloitte Consulting LLP.**

validation, including the lack of statewide standards, Illinois engaged Deloitte Consulting, LLP, to assist in defining an approach for quantifying and reporting actual savings.

"When initial estimates had been provided by the state, each team tried to calculate savings using an approach that was not consistent," says Brent Christenson, Deloitte Consulting, Senior Manager.

"We were engaged to help define a standard-consistent savings validation approach and assist the state in validation efforts for over 100 individual projects taken on to drive the core efficiency initiatives," says Steve Dahl, Deloitte Consulting, National Financial Management and Enterprise Transformation Director, Public Sector.

The team of CMS and Deloitte Consulting developed a systematic, consistent, and objective approach for analyzing the Efficiency Initiatives for fiscal years 2004 and 2005. Understanding the cause and effect of savings is a critical step in being able to sustain efforts going forward.

"If you don't get to the root cause of the actual drivers of savings, you lose a lot of the benefit of the overall effect," says Dahl. "At that point, all you know is that you saved money."

By identifying the core drivers of rates and volume, program reimbursements, and efficiencies gained from actions taken, the state was able to identify areas of success that promised future return on investment, as well as trouble spots. The information allows Illinois to define what impacted the change and continue to track,

improve, and drive savings forward.

"From a sustainability standpoint, performance measurement provides metrics that create benchmarks which people in operations can continually hold themselves to," says Christenson. "If they hold themselves to established benchmarks, then the state can continue to accrue savings."

As the efficiency effort rolls forward, the state can provide continuous improvement with similar projects or creation of new initiatives. With the validation methodology, the State of Illinois has a consistent baseline from which to work. Efficient knowledge transfer has allowed the state to take ownership of the validation methodology and continue with limited support.



**Brent Christenson is Senior Manager for Deloitte Consulting LLP.**

### Success Funds Investments

Governor Blagojevich's mandate to center-led procurement has allowed the state to maximize each taxpayer dollar spent on goods and services.

The successful redesign of the procurement function and core processes has placed Illinois in a position to deploy a considerable amount of savings.

"The \$529 million in savings we achieved was critical in helping Governor Blagojevich increase investments in education, public safety, and health care—without raising sales or income taxes," says Campbell.

During the 2006 legislative session, Illinois lawmakers approved a \$135 million proposal from the governor to create the nation's first statewide preschool program for three- and four-year-olds.

Illinois' Procurement Initiative has allowed the state to implement statewide policies and procedures, reduce prices paid for goods and services, eliminate duplication of back-office functions, and fund programs that are important to constituents—all in a transparent, accountable process. □